ANNUAL REPORT **2000**

uniongas

A WESTCOAST ENERGY COMPANY

FIRST CHOICE FOR NATURAL GAS ENERGY SERVICES

CORPORATE PROFILE

Union Gas Limited is a major Canadian natural gas utility that provides energy delivery and related services to more than 1.1 million residential, commercial and industrial customers in over 400 communities in northern, southwestern and eastern Ontario. The Company's distribution service area extends throughout northern Ontario from the Manitoba border to the North Bay/Muskoka area, through southern Ontario from Windsor to just west of Toronto, and across eastern Ontario from Port Hope to Cornwall.

Union Gas also provides natural gas storage and transportation services for other utilities and energy market participants in Ontario, Quebec and the United States. Union's storage and transmission system is an important link in the movement of natural gas from Western Canadian and U.S. supply basins to Central Canadian and Northeast U.S. markets.

Revenue for 2000 was $1.6 billion, net income was $113 million, and assets totaled $3.9 billion. Total throughput for 2000 was 35.8 billion cubic metres. The Company has approximately 2,200 full-time employees.

The utility operations of Union Gas are regulated under the Ontario Energy Board Act and the Energy Act (Ontario). Union Gas is a wholly-owned subsidiary of Westcoast Energy Inc. of Vancouver, B.C.

CONTENTS

	Corporate Profile
1	Financial and Operating Highlights
2	Union Gas System Map
3	President's Letter
12	Management's Discussion and Analysis
22	Management Responsibility for Financial Reporting
23	Auditors' Report
24	Financial Statements
40	Statement of Corporate Governance Practices
42	Financial Statistics
43	Operating Statistics
44	Corporate Directory

ON THE COVER First Choice for Natural Gas Energy Services. Clockwise from top left:

Union Gas storage and compression facilities at the Dawn Hub,
Natural gas energy delivers dependable home comfort,
Control pulpit of the slab caster facility at Lake Erie Steel Company (Nanticoke, Ontario), a unit of Stelco Inc., Union Gas's largest industrial c
Savouring the warmth and convenience of a natural gas fireplace.

FINANCIAL AND OPERATING HIGHLIGHTS

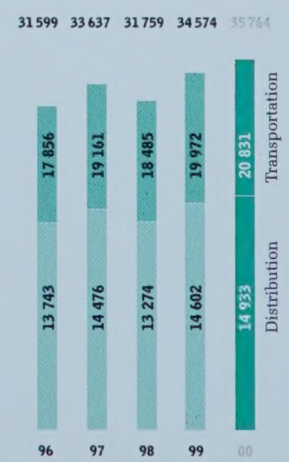
Years Ended December 31	2000	1999
FINANCIAL ($millions)		
Total revenue	**1,614**	1,470
Net income	**113**	95
Earnings applicable to common shares	**108**	90
Capital expenditures	**204**	222
Total assets	**3,998**	3,770
OPERATING		
Volume of gas (million cubic metres - 10^6m^3)		
Distribution volume	**14 933**	14 602
Transportation volume	**20 831**	19 972
Total throughput	**35 764**	34 574
Customers (000's)	**1,123**	1,104
Degree days	**4 197**	3 919

NET INCOME ($millions)

CUSTOMERS (000's)

TOTAL ASSETS ($millions)

TOTAL THROUGHPUT (10^6m^3)



SYSTEM MAP


MANITOBA
ONTARIO
QUEBEC
MINNESOTA
MICHIGAN
NEW YORK
CANADA
UNITED STATES
LAKE SUPERIOR
LAKE HURON
GEORGIAN BAY
LAKE ONTARIO
LAKE ERIE
Lake of the Woods
Lake Nipigon
Bruce Lake
Kenora
Dryden
Rainy River
Fort Frances
International Falls
Thunder Bay
Nipigon
Hearst
Kapuskasing
TRANSCANADA PIPELINE
Timmins
Kirkland Lake
Noranda
Rouyn
New Liskeard
Sault Ste. Marie
Elliot Lake
Espanola
Sudbury
Hagar
North Bay
Parry Sound
Huntsville
Orillia
Owen Sound
Ottawa
TRANSCANADA PIPELINE
Kingston
Belleville
Port Hope
Toronto
Guelph
Cambridge
Kitchener
Waterloo
Oakville
Burlington
Hamilton
Brantford
London
TCPL
Sarnia
St. Clair Pipeline
GREAT LAKES GAS TRANSMISSION
MICHCON
ANR
ANR
PANHANDLE EASTERN
Detroit
Windsor
Chatham
EMPIRE STATE PIPELINE
TENNESSEE GAS TRANSMISSION
Union Gas Service Area
Union Gas Pipelines
Union Gas served communities
Union Gas Compressor Stations
Dawn
Parkway
Lobo
Trafalgar
Bright
Others
TransCanada PipeLines
TransCanada Compressor Stations
Other Natural Gas Pipelines
Canada/U.S.A. Border

PRESIDENT'S LETTER

OVERVIEW: A YEAR OF ACCOMPLISHMENT

For Union Gas, 2000 was a year of strong financial performance and solid growth.

- Net income was $113 million, an increase of 20% compared to 1999.
- Throughput increased by 3.4% to a record 35.8 billion cubic metres (1.26 trillion cubic feet).
- The volume of daily transactions at the Dawn market hub doubled to 215 million cubic metres (7.6 billion cubic feet) from 105 million cubic metres (3.7 billion cubic feet) in 1999.
- Our customer base grew by 20,000, bringing the total to 1,123,000.

During 2000 our company also experienced significant change as employees, building on our 1999 reorganization, developed and implemented numerous improvements to our business processes. These improvements to the way we perform our work and serve our customers are designed to help us successfully meet the challenges of a rapidly changing and increasingly competitive energy marketplace.

An important related effort was our progress towards the introduction of performance-based regulation (PBR) to replace the cost of service regulation currently in use. When in place, PBR will enable us to provide competitively priced services to customers and allow both our customers and shareholders to benefit from efficiency enhancements, new service offerings and growth.

The increase in natural gas commodity prices over the past 18 months has created challenges for our customers and exerted competitive pressures on our business. This has heightened the importance of our efforts to manage costs and improve productivity in order to continue to provide energy value to customers.

1ST QUARTER 2000

JANUARY

- Union Gas experiences a smooth transition to the year 2000, with gas flowing normally to all customers. An 18-month, Year 2000 program to assess, correct and test the Company's business critical systems for Y2K readiness helped prevent the "millennium bug" from affecting business operations.

MARCH

- Reorganization of the customer care function is completed in northern and eastern Ontario service areas. Call centres are consolidated into the Thunder Bay and Kingston offices and billing support centres into the Sudbury and North Bay offices.

FINANCIAL PERFORMANCE

Net income in 2000 was $113 million compared with $95 million in 1999. Earnings applicable to common shares were $108 million compared to $90 million in 1999. The increase in earnings was the result of colder weather in 2000 compared with 1999, an increase in the number of customers, and the success of employee efforts to manage costs and increase revenue. Although 2000 was 7% colder than the previous year, it was the third year in a row of warmer-than-normal weather. The heat-sensitive nature of our business and the growing trend toward warmer-than-normal weather continues to create business challenges.

GROWTH

During 2000, approximately 20,000 new customers chose natural gas for their energy needs, bringing the total number of customers served by Union Gas in Ontario to 1,123,000. About 30% of the new customers converted to natural gas from electricity and other fuels, with the balance resulting from new construction. Natural gas continues to be the preferred energy source for home heating in Ontario. While recent increases in natural gas prices have increased the competition from other fuels, we expect new supplies brought on by higher prices will moderate future gas prices. Overall, future prices are forecast to be lower than recent prices, but higher than the very low prices of a few years ago.

Union Gas transported and distributed a record amount of natural gas through its system in 2000. Total throughput increased by 3.4% over the previous year to approximately 35.8 billion cubic metres (1.26 trillion cubic feet). This growth was a result of the colder weather compared to the previous year, customer growth, increased deliveries to certain in-franchise industrial sector customers, and an increase in demand for services from ex-franchise storage and transportation customers.

In order to serve a growing number of customers and satisfy increased customer demand for services, we invested $204 million in new transmission, storage and distribution projects. A major accomplishment was the completion of the $37 million Century Pools, Phase II, storage

2ND QUARTER 2000

MAY

- Reorganization of the customer care function is completed in the southwestern Ontario service area. Call centres are consolidated into the Brantford office and billing support centres into the Windsor office.
- Settlement negotiations take place with customers and other stakeholders regarding Union's application for a performance based regulation (PBR) method of setting rates for 2000 and beyond, as well as for proposals to unbundle rates for certain services. Agreement is reached on all unbundling issues related to natural gas delivery service and storage. One unbundling issue on upstream transportation and the entire PBR proposal proceed to a hearing before the Ontario Energy Board (OEB).

development project that added 223 million cubic metres (10^6m^3) of storage capacity to serve the growing needs of our storage and transportation customers. Total working capacity at the Dawn storage facilities, the largest in Canada, is now 4121 10^6m^3 or about 145 billion cubic feet.

Customer transactions at the Dawn market hub, located south of Sarnia, continue to grow, increasing the value of these assets in the integrated North American energy marketplace. The Dawn market hub is strategically positioned between growing Eastern North American natural gas markets and Western supply basins, and is interconnected with major North American pipeline systems.

Growth opportunities have increased as a result of the completion, during 2000, of the Vector Pipeline connecting Dawn to the Chicago market hub and to the newly completed Alliance Pipeline from Northeastern British Columbia and Alberta supply basins. Our parent company, Westcoast Energy, is a partner in both of these new pipelines. Continued development of Union Gas's storage and transmission assets, as well as the development of innovative services to move increased volumes from Chicago to Dawn and then downstream to growing markets in the Northeast United States, will be an important component of the Company's future growth and earnings. The recent acquisition by Westcoast Energy of the remaining 50% of the Empire State Pipeline, in New York State, has also provided increased opportunities for Union Gas to market storage, transportation and transactional hub services to shippers and customers in gas-hungry Northeast U.S. energy markets.

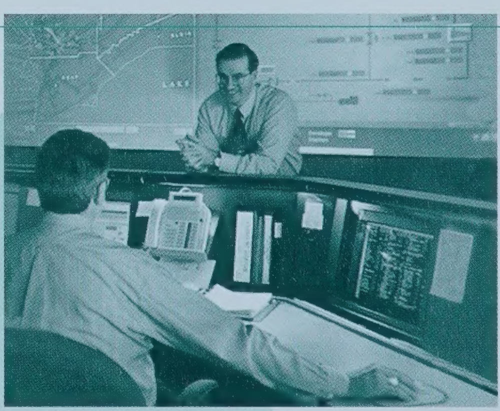
We continue to pursue the profitable growth of our system in order to serve the needs of existing and future customers and to increase the potential for natural gas use. Over the past five years, capital investment in our Ontario infrastructure has totaled approximately $1.3 billion.

BUSINESS PROCESS IMPROVEMENT

During 2000 we continued our work on transforming our business to successfully meet the challenges of a more competitive energy market. The changes we made will help us achieve our goal of being the customers' first choice for natural gas energy services.

JUNE

- The OEB hearing on Union's PBR application and the remaining unbundling issue runs from mid-June to mid-July, with final argument concluding in mid-August.
- Rising natural gas commodity costs caused by strong demand and tight supply in North America increase Union's forecast gas purchase cost from $3.23 to $3.59 per gigajoule. As a result, the typical residential customer's bill increases by about $50 per year.



We achieved significant improvements to a number of key business processes, building on our organizational restructuring of the prior year. Designed and implemented by employees, the new processes sought to improve the efficiency and the consistency of service delivery, reduce costs, improve service flexibility and enhance productivity through the use of technology.

In the customer care area, we consolidated 28 customer inquiry and billing support offices into three call centres and three billing support centres in order to improve the efficiency and consistency of service across Ontario. We completed the implementation of a new customer information system, Banner II, in the southwestern Ontario service area in July 2000. It was introduced in northern and eastern Ontario the previous year. During the launch of this new system, transitional issues resulted in a temporary reduction of customer response levels. We appreciate both the efforts of our customer care staff to restore acceptable response levels in the following months and the patience of our customers during the transition period. The new system now provides customers across Ontario with efficient, one-call service.

An enterprise-wide process to consolidate the supply chain management process across Westcoast companies created significant savings through the coordination of purchasing practices.

Improvements were made in operating practices for distribution construction work and in streamlining processes for attaching new customers. Ongoing improvements continue in such areas as material handling, quality assurance and inspection, meter reading, line locating and field work management. The increased use of electronic commerce with suppliers and customers alike is ongoing.

A new Environmental, Health and Safety management system was implemented to ensure continued compliance with regulations and to provide a consistent approach to policies, programs and procedures. With an emphasis on employee training, the system focuses on continuous improvement of the Company's environmental, health and safety performance.

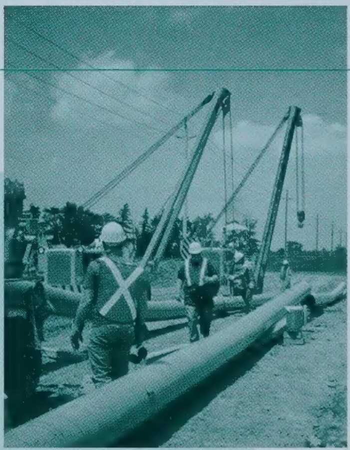
3RD QUARTER 2000

JULY

- Union's new customer information system, Banner II, begins operation in southwestern Ontario, providing customers with one-call service and the Company with a consistent customer care system. Banner II was operational in northern and eastern Ontario in November 1999.

AUGUST

- The $37 million Century Pools, Phase II, storage development project is completed, adding approximately 223 million cubic metres (10^6m^3) of additional storage to meet increased demand from storage and transportation customers. Union's working storage now totals 4121 10^6m^3 or about 145 billion cubic feet.



Union Gas and its employees are committed to the ongoing pursuit of operational excellence in business processes and view it as vital to our capability to deliver value to customers and shareholders alike. As employee engagement is key to achieving our goals, we introduced a new performance process that aligns employee objectives with company objectives and encourages the development of our employees. We also introduced a new market-based compensation system to continue to attract and retain top employees and reward the achievement of objectives.

PERFORMANCE-BASED REGULATION

As competitive forces in energy markets continue to escalate, the move to performance-based regulation (PBR) from traditional cost of service regulation is important to the Company's continued success. PBR provides customers with rate stability, limiting annual increases to a set level that requires Union Gas to become increasingly efficient. It also provides for service level guarantees and allows the Company to benefit from increased productivity, growth and new product offerings. It will reward us for the efficient delivery of value to our customers.

Evidence for Union Gas's application for a PBR method of setting rates for a five-year period beginning in January 2000 was filed with the Ontario Energy Board (OEB) in late 1999, following approximately 15 months of consultations with customers and other interested parties. The application included a proposal to unbundle certain rates charged for the transportation, distribution and storage of natural gas in order to provide customers with greater choice in contracting for service options. Under PBR, rates would be set for five years, productivity gains would be shared between customers and the Company, while price stability and guarantees to maintain minimum service levels would benefit consumers. PBR would also achieve cost savings by eliminating lengthy annual regulatory hearings.

In May 2000, settlement negotiations held with customers and other interested parties resulted in an agreement on all unbundling issues related to delivery service and storage. An unresolved issue on unbundled upstream transportation as well as the entire PBR proposal proceeded to a hearing before the OEB beginning in mid-June and concluding in mid-July. Final argument was heard in mid-August. A decision is expected in the second quarter of this year.

SEPTEMBER

- Application is made to the OEB to construct two new 48-inch diameter loops of the existing Dawn-Trafalgar transmission system. The total cost of the 20 and 16-kilometre pipeline sections is expected to be $86.5 million. Approval is granted in February 2001.
- Application is made to the OEB to construct a $12 million, 10-kilometre loop of the Sarnia Industrial Line to serve the Sarnia Regional Cogeneration Facility being developed by TransAlta Energy Corp. Approval is granted in April 2001.

RISING GAS COSTS

Beginning in 2000 our business environment became increasingly dominated by sharply rising natural gas commodity prices as the North American demand for natural gas outpaced supply. In the 18 months between January 2000 and March 2001 Union Gas's cost of purchasing natural gas supplies increased by 130% from $3.31 per gigajoule to $7.63 per gigajoule. For the typical residential customer, this translated into an increase on the total annual gas bill of between 50 and 60% over the same 18-month period. The cost of purchasing natural gas now makes up about two-thirds of the total residential bill. Due to this increase, by March 2001, a typical residential customer paid between $550 and $600 more per year for home heating, depending on their location, than they did in January 2000. Union Gas does not benefit from increased gas commodity prices. As Ontario regulation requires, the Company charges customers the same price for the gas commodity as our purchase price, with no profit included.

Recognizing the burden these high gas prices were placing on customers, we redoubled our efforts to help customers manage their energy costs. We introduced new programs including free energy efficiency and conservation information, free energy saver clinics in the communities we serve, and a rebate program for customers who purchased certain energy efficiency products. We also promoted the budget billing program which helps manage heating bills by evening them out throughout the year, making the monthly amounts more predictable. We also mounted an extensive public and customer information program to help customers understand the market reasons for the surge in gas prices and we explained how Union Gas's gas purchasing practices help to protect consumers from the full effect of market price volatility. We emphasized the fact that Union Gas, as a regulated utility, does not profit from the sale of the gas commodity, earning its income from delivering natural gas.

4TH QUARTER 2000

OCTOBER

- The continued rise in natural gas prices on North American markets increases Union's forecast gas purchase cost from $3.59 to $4.82 per gigajoule, resulting in an increase of between $155 and $175 a year in the typical residential customer's annual gas bill.
- Union Gas employees take part in the first company-wide audit of Union's new Environment, Health and Safety management system that emphasizes continued improvement of health, safety and environmental practices. All employees received training in this system from June to September 2000.

Union Gas and many of its customers supported Share the Warmth, a non-profit charity, which uses 100% of public donations to assist with the payment of heating and energy bills for the most vulnerable members of our communities.

Higher prices paid to natural gas producers are encouraging new drilling for additional natural gas supplies. These new supplies are expected to result in reduced prices in the future. However, prices are expected to remain above the very low prices of the past several years. These higher gas prices have created challenges for the Company, including lower average use per customer and the partial erosion of the comparative price advantage of natural gas over other fuels. In industrial markets, higher gas prices have caused some customers to curtail production or switch to alternate fuels. The continued competitive pressures exerted on our business by high gas prices heighten the importance of our efforts to manage costs and improve productivity in our business process in order to continue to provide affordable energy to our customers.

LOOKING AHEAD

There are several key challenges facing us in the year ahead. High gas prices, competition from other market participants, the probability of a fourth consecutive year of warmer weather and lower average use per customer, will all require that we find innovative solutions in order to create value for customers and shareholders. The work we have done over the past year to improve the way we operate our business and serve our customers will stand us in good stead as we meet these competitive challenges.

The long-awaited approval of our PBR proposal will be extremely important, allowing both our company and our customers to benefit from new service offerings and productivity enhancements.

While price fluctuations and supply constraints have caused market concerns, natural gas continues to be the fuel of choice in North America. Demand for gas is strong. The value of our natural gas delivery services will increase as the North American market becomes more tightly integrated. The strategic location of our Dawn market hub and our work to develop new services for customers will provide our company with many new opportunities for growth.

NOVEMBER

- Employees in the Eastern Ontario District (Port Hope to Cornwall) celebrate the safety milestone of working 2 million hours for over 6 years, without an injury resulting in lost work time. Employees received the Industrial Accident Prevention Association award for their outstanding achievement.

DECEMBER

- Union Gas launches its partnership with a new charity of choice, Share the Warmth, through media events across the service area and donation appeals in customers' bills. Share the Warmth uses 100% of public donations to purchase heat and energy for families and individuals in need. In the weeks following the energy fund's launch, $200,000 is raised.

Through the hard work and dedication of our employees, Union Gas experienced impressive successes in 2000. These achievements occurred despite warmer than normal weather and the challenges of responding to the effects of high natural gas prices on our customers and our operating activities. I wish to thank each and every one of our employees for their contribution to the Company's success.

Recently our parent company, Westcoast Energy, appointed me Executive Vice-President and Chief Operating Officer. I look forward to the challenges of contributing to Westcoast's natural gas businesses across Canada. I have enjoyed my time at Union Gas and I will miss my day-to-day involvement here. I am confident that Jane Peverett, who will succeed me as President and CEO of Union Gas, will further advance the Company's readiness to meet the competitive challenges in the coming years. I take pride in the accomplishments we achieved as a team during the four years I have been here, and in the changes we have made to ensure future success. I believe that by continuing to improve our abilities to find opportunity in market change and by valuing the contribution of every employee we will continue to stand out as an industry leader.

I wish to thank each of our employees for their support during my tenure at Union Gas. I am sure they will offer Jane the same support and diligence as I enjoyed as CEO. I would also like to thank the members of the Union Gas Board of Directors for their dedication and valuable contribution in helping our company become the customer's first choice for natural gas energy services.

R.T. Reid

R.T. Reid
President and Chief Executive Officer
April 25, 2001

1ST QUARTER 2001

JANUARY

- Strong demand and lagging supply cause steadily rising natural gas commodity prices, boosting Union's forecast gas purchase costs from \$4.82 to \$5.42 per gigajoule. Reflecting this increase, residential customers' heating costs rise from between \$75 and \$85 per year effective January 1, depending on location.

MARCH

- The continued rise in natural gas commodity prices causes another increase in Union's forecast gas purchase costs, from \$5.42 to \$7.63 per gigajoule, for the next 12 months. Effective March 1, the resulting average increase for residential customers is about \$25 a month or \$300 a year. Since January 2000, customers' yearly heating costs have risen from 50 to 60% depending on location, totally due to rising natural gas commodity costs. Union's delivery charges have remained constant.

FINANCIAL REVIEW

CONTENTS

12	Management's Discussion and Analysis
22	Management Responsibility for Financial Reporting
23	Auditors' Report
24	Financial Statements
40	Statement of Corporate Governance Practices
42	Financial Statistics
43	Operating Statistics
44	Corporate Directory

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Company should be read in conjunction with the financial statements and accompanying notes.

AMALGAMATION

Union Gas Limited (Union) and Centra Gas Ontario Inc. (Centra) were amalgamated on January 1, 1998 following approval by the Lieutenant Governor in Council for the Province of Ontario. Prior to amalgamation, both companies were wholly-owned subsidiaries of Westcoast Energy Inc. (Westcoast), and had operated under a shared services arrangement since 1994. The amalgamated company is known as Union Gas Limited.

The amalgamation has been accounted for in a manner similar to a pooling of interests since it is a combination of companies under common control where no substantive change in ownership occurred. Under this method of accounting, the assets, liabilities and shareholders' equity of Union and Centra were combined and accounted for at their carrying amounts.

All references to the Company relate to the amalgamated company, Union Gas Limited. References to Union or Centra relate to the separate legal entities prior to amalgamation.

HIGHLIGHTS

Years Ended December 31	2000	1999	1998
Earnings applicable to common shares ($millions)	**108**	90	108
Distribution volumes (10^6m^3)	**14 933**	14 602	13 274
Transportation volumes (10^6m^3)	**20 831**	19 972	18 485
Customers (000's)	**1,123**	1,104	1,075

The Company is a Canadian natural gas utility that provides natural gas distribution, transmission and storage and related services to more than one million residential, commercial and industrial customers in over 400 communities in northern, southwestern and eastern Ontario. Its distribution service area extends throughout northern Ontario from the Manitoba border to the North Bay/Muskoka area, through southern Ontario from Windsor to just west of Toronto, and across eastern Ontario from Port Hope to Cornwall. The Company also provides natural gas storage and transportation services for other utilities and energy market participants in Ontario, Quebec and the United States. The Company is a wholly-owned subsidiary of Westcoast.

RATE REGULATION

ONTARIO ENERGY BOARD RATES DECISIONS

Utility earnings have been regulated by the Ontario Energy Board (OEB) on the basis of an allowed return on rate base for a future test year period. A rate application process leads to the implementation of new rates intended to provide a utility with the opportunity to earn an allowed rate of return on rate base. The allowed rate of return is established by determining the weighted average cost of the individual components of the capital structure supporting the approved rate base.

In February 1998, the OEB issued a decision approving rates that incorporated an adjustment to the rates of return on common equity for Union and Centra to 10.44% and 10.69% respectively, for the 1998 year. The common equity components of rate base for Union and Centra remained unchanged at 34% and 36%, respectively. On a combined basis, the 1998 allowed rate of return on common equity was 10.53% on a common equity component of rate base of approximately 34.5%.

In January 1999, the OEB issued a decision approving rates for the amalgamated Company for the 1999 year. The OEB approved rates based on a 9.61% rate of return on common equity and a common equity component of rate base of 35%.

PERFORMANCE BASED REGULATION AND UNBUNDLING

In March 1999, the Company filed an application with the OEB for approval of new rates in accordance with a Performance-Based Regulation (PBR) mechanism, to be effective January 1, 2000 for a five-year period. This mechanism, based on a price cap, is proposed to fix the annual unit rate increases for regulated services at 1.9%. There is some pricing flexibility allowed, including the ability to negotiate longer-term rates with customers. Certain items, such as the cost of purchasing gas, will continue to be passed through to customers at cost, the same treatment as currently exists under cost of service regulation. Under the proposal, the Company is prepared to accept somewhat more risk than it would otherwise under the current cost of service regulation in exchange for more opportunity to benefit from growth and cost efficiencies. After a lengthy customer consultation process, the OEB held a hearing on the PBR application during the second and third quarters of 2000. Arguments were completed in August 2000. A decision is expected in the second quarter of 2001.

OPERATING RESULTS

EARNINGS

Years Ended December 31 ($millions)	2000	1999	1998
Gas distribution margin	**605**	569	564
Transportation and storage revenue	**180**	158	151
Other revenue	**33**	35	160
Operating expenses	**473**	459	510
Interest expense	**175**	168	179
Income taxes	**57**	40	77
Net income	**113**	95	109
Earnings applicable to common shares	**108**	90	108
Weather normalized earnings applicable to common shares	**113**	104	143

Net income for 2000 was $113 million compared with $95 million in 1999 and $109 million in 1998. After deducting preference share dividends, earnings applicable to common shares were $108 million in 2000, $90 million in 1999 and $108 million in 1998. The increase in earnings in 2000 compared to 1999 was primarily due to colder weather in 2000 compared to 1999 and ongoing customer growth.

The decrease in earnings in 1999 compared to 1998 was primarily due to the impact of the transfer of the retail merchandise programs to Union Energy Inc., a lower approved rate of return on common equity and an unusual expense related to business restructuring initiatives. The decrease was partially offset by colder weather compared to 1998 and by customer growth.

The weather, measured in heating degree-days, was 2.3% warmer than normal in 2000, 8.6% warmer than normal in 1999 and 18.3% warmer than normal in 1998. Normal heating degree-days are determined each year as the simple average of the previous 30 years actual heating degree-days. In 2000, 1999 and 1998, earnings applicable to common shares were reduced by $5 million, $14 million and $35 million respectively, due to warmer weather compared to normal temperatures. This resulted in an increase in earnings in 2000 compared to 1999 of $9 million and an increase in earnings in 1999 compared to 1998 of $21 million.

QUARTERLY RESULTS

For the quarters ended ($millions)	Mar	June	Sept	Dec
2000				
Operating revenues	**572**	**280**	**210**	**552**
Net income (loss)	**70**	**7**	**(18)**	**54**
1999				
Operating revenues	552	303	195	420
Net income (loss)	75	3	(20)	37

GAS DISTRIBUTION MARGIN

The gas distribution margin was $605 million in 2000 compared with $569 million in 1999 and $564 million in 1998. The increase in the margin in 2000 compared to 1999 was largely due to colder weather in 2000 and customer growth. The increase in the margin in 1999 compared to 1998 was primarily due to colder weather in 1999 and customer growth, partially offset by a reduction in rates to reflect a lower approved rate of return on common equity.

Most of the Company's industrial and commercial customers, and a portion of residential customers, purchase their natural gas supply directly from suppliers or marketers. As the Company earns income from the distribution of natural gas and not the sale of the natural gas commodity, the gas distribution margin is not impacted by the source of the customer's gas supply.

TRANSPORTATION AND STORAGE REVENUE

Revenue from the transportation and storage of gas was $180 million in 2000 compared with $158 million in 1999 and $151 million in 1998. The increases over the past two years were due to an increase in demand for short-term storage and other transactional services.

Transportation and storage customers are primarily Canadian natural gas transmission and distribution companies. Approximately 90% of the Company's annual transportation and storage revenue is generated by fixed demand charges under contracts with remaining terms of up to 15 years and an average outstanding term of 8 years.

OTHER REVENUE

Other revenue was $33 million in 2000 compared with $35 million in 1999 and $160 million in 1998. The decrease compared to 1998 was primarily related to the transfer of the retail merchandise programs which occurred on January 1, 1999. Please refer to section entitled "Transfer of Retail Merchandise Programs".

OPERATING EXPENSES

Operating and maintenance expense was $271 million in 2000 compared with $264 million in 1999, and $297 million in 1998. The increase in 2000 compared to 1999 was partially due to the impact of adopting the new accounting recommendations for employee future benefits. Expenses in 2000 also increased due to higher compressor fuel expense as a result of increased distribution and transportation throughput and the higher cost of natural gas. These increases were offset by cost reduction initiatives. The decrease in expenses in 1999 compared to 1998 was primarily due to the transfer of the retail merchandise programs.

Depreciation and amortization expense was $148 million in 2000 compared with $141 million in 1999 and $164 million in 1998. The increase in 2000 compared to 1999 was due to a higher investment in property, plant and equipment required to serve the expanding customer base. The decrease in depreciation and amortization in 1999 compared to 1998 was primarily due to the transfer of rental assets offset by a higher investment in the Company's other fixed assets.

INTEREST EXPENSE

Interest expense was $175 million in 2000 compared to $168 million in 1999 and $179 million in 1998. The increase in 2000 compared to 1999 was due to higher average long-term debt outstanding, offset in part by a lower weighted average cost of long term debt. As well, average short-term borrowings and short-term interest rates were higher in 2000 compared to 1999. The decrease in interest expense in 1999 compared to 1998 was primarily due to lower short-term borrowings as a result of the proceeds from the transfer of the retail merchandise programs and a lower weighted average cost of long-term debt.

INCOME TAXES

The Company accounts for income taxes using the flow through tax accounting methodology as approved by the OEB. Under flow through tax accounting, income tax expense is recorded on the basis of income taxes currently payable. Rates and revenues for utility operations include recovery of only such income taxes as are currently payable. Accordingly, the Company does not provide for income taxes deferred to future years as a result of differences in the treatment for income tax and accounting purposes of various items of income and expenditure. The only exception is that the Company calculates deferred income taxes on temporary differences between the approved cost and the actual cost of gas and other amounts deferred in accounts approved by the OEB.

Prior to 1997, the Company utilized the tax allocation method to account for income taxes. Under this method, provision was made for income taxes deferred principally as a result of claiming capital cost allowance for income tax purposes in excess of depreciation provided in the accounts. As approved by the OEB, this balance is reduced as the timing differences that gave rise to these deferred income taxes reverse.

The effective rate of income taxes was 33.5% in 2000, 29.6% in 1999 and 41.3% in 1998. The increase in the effective rate in 2000 compared to 1999 was primarily due to a decrease in deductions claimed for income tax purposes in excess of amounts recorded for accounting purposes. This was partially offset by an increase in the amortization of deferred income taxes. The decrease in the effective rate in 1999 compared to 1998 was primarily related to the amortization of deferred income taxes.

FINANCIAL CONDITION

OPERATIONS

Cash flow from operating activities after non-cash working capital changes was $126 million in 2000 compared with $155 million in 1999 and $252 million in 1998. The decrease in operating funds in 2000 compared to 1999 was primarily related to higher levels of accounts receivable and inventories resulting from the increased cost of natural gas. This was partially offset by higher net income in 2000. The decrease in operating funds in 1999 compared to 1998 was primarily due to higher levels of natural gas held in storage at the end of 1999 and lower operating cash flow resulting largely from the impact of the transfer of the retail merchandise programs.

INVESTMENT ACTIVITIES

Capital expenditures totalled $204 million in 2000 compared to $222 million in 1999 and $264 million in 1998. Of the total 2000 investment, 28% was spent on transmission and storage projects, 56% on distribution projects and 16% on projects of a general nature. These investments were necessary to meet the growth in customer demand for services. Capital expenditures are expected to be approximately $250 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company meets its cash requirements through funds generated from operations, issuance of short-term debt, long-term debt and preference shares, and common equity investment by the Company's parent.

The Company has total bank lines of credit of $600 million. The lines of credit include a committed credit facility of $550 million with a one-year term that commenced in July 2000, and a $50 million operating facility. During the term of the committed credit facility, the Company has the option to convert drawings under the facility to loans not exceeding eighteen months. These lines of credit enable the Company to borrow directly from banks, issue bankers' acceptances and support a commercial paper program. Most of the short-term cash requirements are funded through issuing commercial paper at rates generally below prime.

The short-term borrowing levels fluctuate significantly during the year due to the funding of construction activities, the timing of long-term debt issues and other financing activities, and the seasonality of the Company's business. The peak borrowings during 2000 reached approximately $500 million in December.

The Company has a medium-term note (MTN) program that allows for the ongoing offering of unsecured MTN debentures under a shelf prospectus. The current shelf prospectus was filed in June 2000 and permits the issuance of medium-term notes in one or more series up to an aggregate principal amount of $400 million over its two-year life.

Under its previous shelf prospectus, which matured in June 2000, the Company had issued $185 million of MTN debentures in May 2000 and $100 million in July 1998. The proceeds from these issues were used to repay short-term indebtedness incurred to finance capital expenditures and for other corporate purposes. The Company did not issue any long-term debt in 1999.

Long-term debt repayments in 2000 totalled $122 million. This amount included the early redemptions of the 13.375% 1980 Series debentures in the amount of $35 million and the 10.625% 1986 Series debentures in the amount of $75 million. Long-term debt repayments on sinking fund debentures totalled $12 million in 1999. Long-term debt repayments in 1998 totalled $94 million, which included the repayment of the 10.5% 1988 Series debentures in the amount of $50 million and the early redemptions of the 13.0% 1983 Second Series debentures and the 13.5% senior debentures in the amount of $13 million each.

In 1998, the Company issued 4.88% Class B, Series 10 preference shares totalling $100 million. The Company redeemed preference shares in 1998 totalling $50 million, related to the 6.74% Class B, Series 9 redeemable preference shares.

Common equity is provided periodically by the Company's parent in order to maintain the common equity component of rate base as approved by the OEB. Common shares were issued by the Company in 2000 in the amount of $23 million.

The Company's capital instruments are rated as follows:

	Standard & Poor's	Dominion Bond Rating Service
Commercial paper	A - 1 (Low)	R - 1 (Low)
Debentures	A -	A
Preference shares	P - 2	Pfd - 2

GAS SUPPLY

The gas supply portfolio includes both fixed price contracts and contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. These variable price contracts are indexed to either the New York Mercantile Exchange (NYMEX) natural gas futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. Approximately 79% of the Company's forecast gas supply from January through October 2001 is subject to indexed prices.

The Company has a risk management policy that is designed to reduce the price volatility of its gas supply. Hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. During the year ended December 31, 2000, the Company hedged the purchase price applicable to 40% of its indexed gas supply. At December 31, 2000, the Company had entered into natural gas swap contracts to effectively fix the purchase price for approximately 127 10^6m^3 or 4% of the indexed gas supply from January through October 2001.

In 2001, firm gas supply contracts represent approximately 61% of the Company's total forecast gas supply. Most of these contracts are subject to price re-determination as of November 1, 2001. The remaining 39% of gas purchases include spot gas and other non-contracted supplies.

Gas costs are included in customer rates based on forecasts approved by the OEB. Differences between the OEB approved reference prices and the actual cost of gas purchased, including the impact of both the indexed purchase prices and any hedging activities, are deferred for disposition as approved by the OEB.

TRANSFER OF RETAIL MERCHANDISE PROGRAMS

On January 1, 1999, following approval of the OEB, the Company transferred its assets relating to the retail merchandise programs to UEI Holdings Inc. (UEIH), an affiliated, unregulated company. These assets were subsequently sold by UEIH to Union Energy Inc. (Union Energy) and Westcoast Capital Corporation (Westcoast Capital). Union Energy and Westcoast Capital are also affiliated, unregulated businesses. The retail merchandise programs, which form part of the business of Union Energy include water heater and other equipment rentals, appliance sales and service work, and merchandise financing. In its decision, the OEB held that the transfer was in keeping with the restructuring of the Ontario energy industry.

The transfer of the retail merchandise programs and the related restructuring was in response to the rapidly changing and increasingly competitive energy marketplace in Ontario and throughout North America. The restructuring allows the Company to concentrate on developing new delivery services and to continue to operate a safe and reliable delivery system to serve customers. Union Energy, as an unregulated business, has more flexibility than the utility to design and package energy products and services to meet customers' needs and expectations.

The proceeds of the transfer comprised $342 million of cash and $150 million of UEI Holdings Inc. 5.2% cumulative redeemable preferred shares. The cash received was applied to reduce short-term borrowings and to pay a dividend on common shares of $135 million. The amount of the dividend on common shares was determined based on the excess common equity resulting from the reduction in rate base upon the transfer of the assets.

The following is a summary of the net assets transferred as part of the transaction:

($millions)	
Rental equipment	405
Finance contracts	155
Inventory	15
General plant and other assets	13
	588
Deferred income taxes - recorded	(65)
- unrecorded	(31)
	492

Since the transfer of the assets is a related party transaction, it has been accounted for at the carrying amounts of the net assets transferred. With this accounting, the difference between the net proceeds received and the carrying amounts was recorded as an adjustment to shareholders' equity. This resulted in a $38 million charge to the Company's retained earnings as at January 1, 1999. The charge to retained earnings represents the unrecorded deferred income taxes on assets transferred of $31 million and adjustments and costs of disposition of $7 million. The unrecorded deferred income taxes arose through the use of the flow through tax accounting methodology.

ENVIRONMENT, HEALTH AND SAFETY MANAGEMENT PROGRAM

The Company is guided by the principles of sustainable development and strives to ensure that environmental, social and economic issues are considered during the processes of planning, construction and operations to ensure that the environmental and human needs are supported both in the present and for future generations.

Environmental protection, health, and safety are considered to be both corporate and personal responsibilities for the Company and its employees. During 2000, the Company began implementing an environment, health and safety management system to ensure continued compliance with applicable regulations and to provide a consistent approach to policies, programs and procedures. Additional emphasis was placed on training employees on workplace hazards. The management system forms the foundation that allows the continuous improvement of the Company's environment, health and safety performance.

The Company believes that natural gas is part of the solution to climate change. As the least carbon-intensive fossil fuel, natural gas will play an important role in meeting today's growing energy needs, while bridging the transition to tomorrow's new, renewable energy sources. The Company continually encourages and engages customers to convert to natural gas and use it more efficiently.

These activities are integral to the Company's daily activities. The Company believes that these programs make sound business sense.

OUTLOOK

MARKET

Natural gas continues to be an efficient and environmentally acceptable form of energy. The past year's increases in the market price of natural gas have caused some industrial users of gas to switch to other forms of energy or to suspend or move operations. Supply is expected to increase in response to recent price increases, which will restore the competitive position of natural gas relative to other fuels. Accordingly, the demand for gas is expected to continue to grow.

Shortages of electrical power in regions of Canada and the United States demonstrate a need for additional electrical generating capacity. Gas-fired generation is capital cost efficient, environmentally more acceptable than other alternatives, and relatively faster to develop and construct. It is expected that gas-fired generation will continue to be a leading source of incremental power in North America and will continue to drive growing demand for natural gas.

New energy technologies such as fuel cells, micro-turbines and other forms of distributed generation generally use natural gas as a fuel source. Further development of these technologies is expected to continue to support the use of natural gas as a primary source of energy.

The increase in market prices in the past year has been the result of slower than expected supply growth combined with strong demand growth. While additional infrastructure has been completed to support the delivery of natural gas to markets, the supply response from the traditional producing regions has been slower than originally anticipated. However, higher gas prices have resulted in increased exploration and development both in traditional producing regions and in new producing regions such as off the coast of Nova Scotia and in the southern Northwest Territories. In addition, the industry is considering the development of pipeline facilities to allow the development of large proven reserves in Alaska and potential reserves in the Mackenzie Delta. In the medium and longer term, supply of natural gas is not expected to be a limiting factor in the use of natural gas as an important energy source in North America.

Over the last 18 months, the average cost of natural gas has increased substantially. The Company earns no margin on the sale of gas, charging its purchase costs directly through to customers. The natural gas cost increases may result in decreased demand for natural gas from all customer segments. The high price of natural gas has also increased the working capital financing requirements and related costs for accounts receivable and gas inventory for the Company, and may give rise to higher bad debt costs in the future.

The average amount of natural gas consumed by the Company's residential customers continued its decline this year. This decline is caused by the replacement of older heating equipment by newer, more efficient heating equipment, and by more energy-efficient housing. The Company supports the efficient use of natural gas, and an allowance for this annual decline is included in the rates charged to customers. The Company has also introduced a new channel marketing program, aimed at increasing the market share for other gas-fired appliances such as ranges, dryers, barbeques and fireplaces.

The regulatory environment may continue to evolve, with less economic oversight from the OEB than in the past. This evolution in regulatory direction can result in higher risk. It is also providing opportunities for utility companies, and the capability to be more flexible in responding to competitive pressures.

The outlook for the Company continues to be positive, supported by growing demand for natural gas, plentiful existing and potential supply, additional transportation infrastructure and strong environmental support for natural gas as an appropriate alternative to other fossil fuels and nuclear energy. The Company's large and diverse customer base, extensive distribution system, and the strategic location of its storage and transmission facilities, with interconnections between major U.S. markets in Michigan and New York state, will provide a sound basis for future growth.

BUSINESS RISK

The Company's earnings are impacted by business risks inherent in the natural gas industry and energy marketplace. The earnings level is impacted by general economic conditions, the Company's ability to generate forecast revenues, weather, interest rates, levels of cost inflation and the OEB's decisions with respect to rates. The changes to the regulatory environment are increasing the risk of the business somewhat as more responsibility is placed on the Company to optimize its revenues and costs.

The rates allowed by the OEB are based on forecasts assuming normal weather conditions. Since a large portion of the gas distributed to the higher margin residential and commercial market is used for space heating, differences from normal weather have a significant effect on the consumption of gas. Sales to industrial customers are impacted by economic conditions and the price of competitive energy sources. Many of these customers have the ability to switch to an alternative fuel. The transportation and storage business is affected by competition for energy services in the North American energy marketplace, as well as economic conditions.

The Company has approximately 450 franchise agreements with municipalities in Ontario. These agreements set out the terms and conditions under which the Company conducts its business within the municipality. The OEB has issued a new model franchise agreement that defines the basis for granting and renewing these franchises, on terms which are generally acceptable to the Company. The Company is pursuing some additional changes to the agreement to ensure that its position is competitive compared to the terms and fees applied to electricity distribution companies.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and all information in this report have been prepared by and are the responsibility of management. The financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include certain estimated amounts that are based on informed judgements to ensure fair representation in all material respects. When alternative accounting methods exist, management has chosen those it considers most appropriate.

Management depends upon the Company's system of internal controls and formal policies and procedures to ensure the consistency, integrity and reliability of accounting and financial reporting, and to provide reasonable assurance that assets are safeguarded and that transactions are properly executed in accordance with management's authorization. Management is also supported and assisted by a program of internal audit services.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and for final approval of the financial statements. The Board of Directors performs this responsibility primarily through its Audit Committee.

The Audit Committee is composed of non-management Directors. The Audit Committee meets with management, the internal auditors and the shareholders' auditors to review the financial statements, the Auditors' Report and other auditing and accounting matters to ensure that each group is properly discharging its responsibilities. Ernst & Young LLP, the shareholders' auditors, and the internal auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors.

Ernst & Young LLP has performed an independent audit of the financial statements in this report. Their independent professional opinion on the fairness of these financial statements is included in the Auditors' Report.

January 26, 2001

R. T. Reid

R. T. Reid
President and
Chief Executive Officer

M. R. Birmingham
Vice-President,
Finance and Business Services

AUDITORS' REPORT

To the Shareholders of Union Gas Limited

We have audited the balance sheets of Union Gas Limited as at December 31, 2000 and 1999 and the statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Toronto, Ontario
January 26, 2001

STATEMENTS OF INCOME

For the Years Ended December 31 ($millions)	2000	1999
Gas sales	1,038	992
Cost of gas (note 16)	796	708
Gas sales margin	242	284
Transportation service (note 16)	363	285
Gas distribution margin	605	569
Transportation and storage revenue	180	158
Other revenue	33	35
	818	762
Expenses		
Operating and maintenance (note 16)	271	264
Depreciation and amortization (note 5)	148	141
Property and capital taxes	54	54
	473	459
Operating income	345	303
Interest expense		
Long-term debt	161	158
Short-term debt	16	13
Interest capitalized	(2)	(3)
	175	168
Income before income taxes	170	135
Income taxes (notes 2, 3 and 14)	57	40
NET INCOME	113	95
Preference share dividend requirement	5	5
Earnings applicable to common shares	108	90

(See accompanying notes)

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31 ($millions)	2000	1999
Retained earnings, beginning of year	**353**	513
Net income	**113**	95
Dividends		
Preference shares	**5**	5
Common shares	**65**	212
Distribution of equity on assets sold (note 15)	**–**	38
Retained earnings, end of year	**396**	353

(See accompanying notes)

BALANCE SHEETS

As at December 31 ($millions)	2000	1999
ASSETS		
Current assets		
Accounts receivable (note 16)	**347**	263
Inventories (note 4)	**398**	315
Income taxes receivable	**–**	14
Deferred income taxes (notes 3 and 16)	**49**	22
	794	614
Property, plant and equipment (note 5)	**3,003**	2,947
Investments and other assets (note 6)	**201**	209
	3,998	3,770
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (note 7)	**509**	455
Accounts payable and accrued charges (note 16)	**306**	287
Income and other taxes payable	**26**	–
Long-term debt due within one year (note 8)	**11**	47
	852	789
Long-term debt (note 8)	**1,694**	1,595
Redeemable preference shares (note 9)	**5**	5
Deferred income taxes (notes 2 and 3)	**301**	319
Shareholders' equity		
Share capital (note 10)	**750**	709
Retained earnings	**396**	353
	1,146	1,062
	3,998	3,770

Contingencies (notes 11 and 17)

(See accompanying notes)

Approved by the Board

R. T. Reid
Director

A. B. Ryans
Director

STATEMENTS OF CASH FLOWS

For the Years Ended December 31 ($millions)	2000	1999
OPERATING ACTIVITIES		
Net income	**113**	95
Charges not affecting cash		
Depreciation and amortization	**150**	143
Deferred income taxes	**(26)**	(17)
Operating cash flow	**237**	221
Non-cash working capital changes		
Accounts receivable	**(84)**	(13)
Gas in storage	**(84)**	(69)
Accounts payable and accrued charges and other	**57**	16
	126	155
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(204)**	(222)
Decrease in investments and other assets	**8**	1
Proceeds on sale of assets (note 15)	–	342
	(196)	121
FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	**54**	(47)
Long-term debt		
Issued	**185**	–
Retired	**(122)**	(12)
Common shares issued	**23**	–
Dividends	**(70)**	(217)
	70	(276)
Change in cash during the year and cash, end of year	–	–

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

REGULATION

The utility operations are subject to regulation under the Ontario Energy Board Act and the Energy Act (Ontario). Rate schedules are approved periodically by the Ontario Energy Board (OEB) and are designed to permit a fair and reasonable return on the utility investment after recovering the utility cost of service. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year.

The Company has filed an application with the OEB for an order approving rates for the year 2000 and thereafter in accordance with a performance-based regulation mechanism. The application also sought an order from the OEB approving the unbundling of certain rates charged for the sale, distribution, transportation and storage of natural gas. The hearing for this application concluded in August 2000, but a decision has not yet been rendered by the OEB. Revenue in 2000 includes an assumption for cost pass-through and other items based upon previous regulatory practice. The full impact of the decision, which is not certain, will be accounted for at the date of the regulatory decision.

The Company operates within southwestern, northern and eastern Ontario under franchise agreements with individual municipalities that are approved by the OEB.

GAS SALES AND COST OF GAS

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the reporting period. Cost of gas is recorded using prices approved by the OEB in the determination of customer sales rates. Differences between the OEB approved reference prices and those costs actually incurred are deferred for future disposition subject to approval by the OEB.

In the matching of gas sales revenue and cost of gas sold, volumetric differences arise from the measurement process. The Company includes in the cost of gas an estimated amount of these volumetric differences based upon the methodology recognized by the OEB in the determination of customer sales rates. Annual fluctuations from the estimated level are deferred and amortized over a period of three years.

INCOME TAXES

Effective January 1, 2000, The Canadian Institute of Chartered Accountants (CICA) changed the accounting standards relating to the accounting for income taxes to the liability method. The CICA's new standard continues to allow the Company to account for income taxes using the flow through tax accounting methodology as approved by the OEB.

Under flow through tax accounting, income tax expense is recorded on the basis of income taxes currently payable. Rates and revenues for utility operations include recovery of only such income taxes as are currently payable. Accordingly, the Company does not provide for income taxes deferred to future years as a result of differences in the treatment for income tax and accounting purposes of various items of income and expenditure. The only exception is that the Company calculates deferred income taxes on temporary differences between the approved cost and the actual cost of gas and other amounts deferred in accounts approved by the OEB.

Prior to 1997, the Company utilized the tax allocation method to account for income taxes. Under this method, provision was made for income taxes deferred principally as a result of claiming capital cost allowance for income tax purposes in excess of depreciation provided in the accounts. Note 2 describes the method for disposition of the accumulated deferred tax balance.

In the event that the Company had implemented the liability method for fiscal 2000, the deferred income tax liabilities and assets and deferred income tax expense would have been:

	Liability Method		Flow Through Method	
($millions)	**2000**	1999	**2000**	1999
Current deferred income tax asset	**49**	22	**49**	22
Long term deferred income tax liability	**419**	449	**301**	319
Deferred income tax expense (recovery)	**(39)**	7	**(26)**	(16)

INVENTORIES

Gas in storage is carried at prices approved by the OEB in the determination of customer sales rates. Inventories of materials and supplies are valued at the lower of average cost, replacement cost and net realizable value.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are carried at cost which includes all direct costs, overhead attributable to construction and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from customers and governmental bodies in support of specific transmission and distribution facilities.

The original cost of depreciable units retired, together with the net cost of removal less salvage, is charged to accumulated depreciation. Under this method, no income or loss is recognized on ordinary retirements of depreciable property.

Depreciation is provided on the straight-line method at various rates based on the average service life of each class of property, ranging from 4 to 60 years. Depreciation rates are determined by periodic review and approved by the OEB.

EMPLOYEE BENEFIT PLANS

Effective January 1, 2000, the Company adopted, on a prospective basis, the new recommendations of the CICA with respect to accounting for employee future benefits. The new recommendations modify the previous CICA requirements for pension costs and obligations and apply the modified requirements to non-pension benefits. Under the new recommendations, the Company will replace the pay-as-you-go method of accounting for post-retirement benefits other than pensions with accrual accounting that recognizes the liability and expense in the period when the benefits are earned, not received. The effect of adopting the new recommendations was to decrease 2000 pre-tax income by approximately $7 million.

Under the new recommendations, the Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The plan assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The average remaining service period of the active employees covered by both the pension plans and the other retirement benefits plans is 17 years.

For defined contribution plans maintained by the Company, contributions payable by the Company are expensed as pension costs.

NATURAL GAS SWAP AND OTHER CONTRACTS

The Company's gas supply portfolio includes contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. In order to manage price volatility, hedges are used to fix gas prices with respect to the underlying physical gas supply contracts. The hedges include the use of natural gas swaps and purchase price collars. The actual cost of gas purchased includes the impact of any hedging activities related to these contracts. The Company negotiates natural gas swap and purchase price collar contracts only with those institutions that have a credit rating of A or higher.

2. DEFERRED INCOME TAXES

In 1997, following approval by the OEB, the Company changed its accounting for income taxes related to utility operations from the tax allocation method to flow through tax accounting consistent with the determination of 1997 rates. This change was applied prospectively since the basis for determining the Company's rates and revenues for utility operations were previously established taking into account the provision for income taxes based on the tax allocation methodology.

The deferred tax balance of $301 million at December 31, 2000 (1999 – $319 million) includes $293 million (1999 – $308 million) that arose from using the tax allocation methodology related to utility operations. As approved by the OEB, this balance is reduced as the timing differences that gave rise to these deferred income taxes reverse. The timing differences related to utility operations are expected to reverse over approximately 18 years.

3. INCOME TAX TREATMENT OF GAS COST AND OTHER OEB APPROVED DEFERRAL ACCOUNTS

The Company has recorded an amount of $74 million payable (1999 - $52 million payable) that represents gas costs and other amounts deferred in accounts approved by the OEB.

The Company is required to deduct from or include in taxable income the actual amounts incurred related to these deferral accounts. The change in the deferral account balances during the year resulted in an increase in taxable income of $22 million (1999 - $20 million). The Company recorded deferred income taxes of $9 million (1999 - $9 million) with respect to these amounts.

4. INVENTORIES

($millions)	2000	1999
Gas in storage	371	287
Materials and supplies	27	28
	398	315

5. PROPERTY, PLANT AND EQUIPMENT

($millions)	2000	1999
Cost		
Distribution	2,478	2,377
Transmission	999	982
Storage	553	513
General	256	261
	4,286	4,133
Accumulated depreciation		
Distribution	764	701
Transmission	299	274
Storage	125	111
General	95	100
	1,283	1,186
Net book value	3,003	2,947

Gas distribution plant is net of contributions in aid of construction of $153 million (1999 - $147 million). Depreciation rates used during the year ended December 31, 2000 resulted in a composite rate of 3.56% (1999 – 3.38%). In 2000, $2 million (1999 - $2 million) of depreciation was allocated to operating and maintenance expense rather than to depreciation and amortization expense shown on the Statements of Income.

Property, plant and equipment include assets that are not subject to depreciation totalling $111 million (1999 - $106 million). These assets include land, base pressure gas in storage reservoirs and assets under construction.

6. INVESTMENTS AND OTHER ASSETS

($millions)	2000	1999
Centra Gas Manitoba Inc. 10.625% debentures net of current portion of $1 million (1999 - $1 million)	10	10
UEI Holdings Inc. 5.2% cumulative redeemable preferred shares (note 15)	150	150
Deferred charges and other	41	49
	201	209

7. SHORT-TERM BORROWINGS

The Company has total bank lines of credit of $600 million. The lines of credit include a committed credit facility of $550 million with a one-year term that commenced in July 2000, and a $50 million operating facility. During the term of the committed credit facility, the Company has the option to convert drawings under the facility to loans not exceeding eighteen months. The bank lines of credit are unsecured.

These lines of credit enable the Company to borrow directly from banks, issue bankers' acceptances and support a commercial paper program. Most of the short-term cash requirements are funded through issuing commercial paper at rates generally below prime. The average interest rate on short-term borrowings for the year ended December 31, 2000 was 5.7% (1999 – 5.2%).

Total short-term interest paid in 2000 was $11 million (1999 - $14 million).

8. LONG-TERM DEBT

($millions)	2000	1999
Sinking fund debentures		
13.375% 1980 Series debentures, due March 31, 2000	–	36
11.55% 1988 Series II debentures, due October 15, 2010	73	77
13.5% senior debentures due November 14, 2008	10	11
10.625% senior debentures due July 14, 2006	39	42
10.75% senior debentures due July 31, 2009	48	51
Other long-term debt		
10.625% 1986 Series debentures, due December 15, 2005	–	75
10.625% 1989 Series debentures, due July 11, 2011	125	125
11.5% 1990 Series debentures, due August 28, 2015	150	150
9.7% 1992 Series II debentures, due November 6, 2017	125	125
8.75% 1993 Series debentures, due August 3, 2018	125	125
7.90% 1994 Series debentures, due February 24, 2014	150	150
9.75% 1994 Series II debentures, due December 13, 2004	125	125
8.65% 1995 Series debentures, due November 10, 2025	125	125
9.7% senior debentures, due December 9, 2002	75	75
8.65% senior debentures, due October 19, 2018	75	75
8.85% senior debentures, due September 1, 2005	100	100
7.8% senior debentures, due December 1, 2006	75	75
Medium-term note debentures		
5.7% Series 1, due July 14, 2008	100	100
7.2% Series 2, due June 1, 2010	185	–
	1,705	1,642
Less: current portion	11	47
	1,694	1,595

The weighted average cost of long-term debt for the year ended December 31, 2000 was 9.2% (1999 – 9.4%). Principal repayment requirements on long-term debt are as follows:

	($millions)
2001	11
2002	86
2003	11
2004	136
2005	111
Thereafter	1,350
Total	1,705

Under the terms of the trust indentures relating to certain debentures, the Company has agreed to limit the payment of dividends and to meet certain interest coverage ratios prior to the issue of additional long-term debt. The Company is in compliance with all such covenants.

Total interest paid on long-term debt in 2000 was $160 million (1999 – $157 million).

9. REDEEMABLE PREFERENCE SHARES

($millions)		2000	1999
AUTHORIZED	ISSUED		
Preference shares			
Class A – 103,972 shares (1999 – 105,172)	54,472 Series A, 5.5% (1999 – 55,672)	3	3
	49,500 Series C, 5% (1999 – 49,500)	2	2
Class B - unlimited shares	Nil	–	–
		5	5
Less: current portion		–	–
		5	5

The Class A Preference Shares, Series A and C are cumulative and redeemable at $50.50 per share. Through the operation of a purchase fund the Company is obligated to offer to purchase $170,000 of Series A and $140,000 of Series C shares annually at the lowest price obtainable but not exceeding $50 per share.

10. SHARE CAPITAL

($millions)		2000	1999
AUTHORIZED	ISSUED		
Preference shares			
Class A - 90,000 shares	90,000 Series B, 6%	5	5
Class B - unlimited shares	4,000,000 Series 10, 4.88%	100	100
Class C - unlimited shares	100,000 Series 1	18	–
		123	105
Common shares - unlimited shares	57,822,650 shares (1999 – 56,758,820)	627	604
		750	709

The Class A Preference Shares, Series B are cumulative and redeemable at $55 per share.

The Class B Preference Shares, Series 10 are cumulative and redeemable at the Company's option and convertible into Class B Preference Shares, Series 11 every five years commencing January 1, 2004. The dividend rate is fixed until December 31, 2003, at which point the dividend will become floating at an annual rate of 80% of the prime rate.

The Class C Preference Shares, Series 1 are cumulative and mandatorily redeemable on a quarterly basis if in that quarter, the Company's corporate tax instalment, which would otherwise have been payable but for the utilization of the Union Energy Inc. (UEI) losses (note 16), is reduced as a result of the use by the Company of the UEI losses. The number of shares redeemed in a quarter is based on the tax instalment reduction realized in the quarter. The proceeds on redemption are payable in either cash or Class C Preference Shares, Series 2. Class C Preference Shares not redeemed by December 31, 2003 will be redeemed without consideration. A quarterly cumulative dividend of 6% per annum of the amount by which the Company's tax instalments have been reduced by the utilization of the UEI losses, will be payable if the Company fails to make quarterly required redemption payments.

11. NATURAL GAS SWAP CONTRACTS

The purchase price applicable to approximately 79% of the Company's forecast gas supply from January through October 2001 is indexed to either the New York Mercantile Exchange Natural Gas Futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. At December 31, 2000, the purchase price applicable to 127 10^6m^3 or 4% of this indexed supply has been effectively fixed through the use of natural gas swap contracts.

12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following fair value information is provided to comply with financial instrument disclosure requirements. Fair values have been estimated by reference to quoted market prices for the actual or similar instruments where available. The fair value of accounts receivable and current liabilities approximated their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments. The carrying values and fair values (FV) of the Company's other financial instruments are as follows:

($millions)	2000		1999	
	Carrying Value	**FV**	Carrying Value	FV
Assets				
Centra Gas Manitoba Inc. debentures	**10**	**10**	10	11
UEI Holdings Inc. preferred shares	**150**	**150**	150	150
Natural gas swap contracts	**–**	**32**	–	(6)
Liabilities				
Long-term debt	**1,705**	**1,754**	1,642	1,761
Redeemable preference shares	**5**	**5**	5	5

Under the regulatory process, the Company recovers the weighted average cost of its long-term debt through its cost of service. Accordingly, the Company cautions readers that estimated fair values may not be relevant for their purposes.

13. EMPLOYEE FUTURE BENEFITS

The Company has defined benefit pension plans, defined contribution pension plans and defined benefit plans providing retirement and post-employment health and life insurance benefits for most employees.

The defined contribution pension expense for the year ended December 31, 2000 was $2 million.

Information about the defined benefit plans, in aggregate, for the year ended December 31, 2000 is as follows:

($millions)	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligations		
Balance, beginning of year	349	40
Current service cost	7	1
Interest cost	24	3
Benefits paid	(26)	(2)
Balance, end of year	354	42
Plan assets		
Fair value, beginning of year	346	–
Return on plan assets	25	–
Employer contributions	10	–
Employees' contributions	2	–
Benefits paid	(26)	–
Actuarial gains	32	–
Fair value, end of year	389	–
Funded status – plan surplus (deficit)	35	(42)
Unamortized net actuarial gain	(32)	–
Unamortized transitional obligation	24	37
Accrued benefit asset (liability)	27	(5)

The non-pension defined benefit plans are unfunded.

There are also certain defined benefit pension plans that have accrued obligations that exceed their plan assets. For those plans, the accrued benefit obligations are $25 million and the fair value of plan assets are $12 million.

The following is a summary of the weighted average significant actuarial assumptions used in measuring the Company's accrued benefit obligations:

	Pension Benefit Plans		Other Benefit Plans
	2000	1999	2000
Discount rate	7.00%	7-8%	7.00%
Expected long-term rate of return on plan assets	7.50%	7-8%	N/A
Rate of compensation increase	3.25%	3.25-6%	3.25%

In addition, in determining the expected cost of health care benefit plans, it is assumed that the inflationary increase of health care costs will decrease gradually to 5% in 2003 and remain level thereafter.

The Company's net benefit plan expense for the year ended December 31, 2000 is as follows:

($millions)	Pension Benefit Plans	Other Benefits Plans
Current service cost	5	1
Interest on projected benefit obligation	24	3
Return on plan assets	(25)	–
Amortization of transitional obligation	2	2
Net benefit plan expense	6	6

14. INCOME TAXES

The provision for income taxes consists of the following:

($millions)	2000	1999
Current	83	56
Deferred	(26)	(16)
	57	40

A reconciliation between the combined Federal and Ontario statutory tax rate and the effective rate of income taxes is as follows:

($millions)	2000	1999
Income before income taxes	170	135
Statutory income tax rate	42.83%	43.5%
Statutory income tax rate applied to accounting income	73	58
Increase (decrease) resulting from:		
Dividend income	(3)	(3)
Large corporations tax	8	7
Deductions claimed for income tax purposes in excess of amounts recorded for accounting purposes	(6)	(10)
Amortization of deferred income taxes	(15)	(9)
Other	–	(3)
Provision for income taxes	57	40
Effective rate of income taxes	33.5%	29.6%

Total income taxes paid in 2000 were $48 million (1999 – $31 million).

15. SALE OF ASSETS

On January 1, 1999, following the approval of the OEB, the Company sold its net assets relating to the retail merchandise programs to UEI Holdings Inc. (UEIH), a company related through common control. The retail merchandise programs include appliance sales and rentals, appliance service work and merchandise financing. The Company continues to provide certain administrative services to UEIH relating to the retail merchandise programs.

The proceeds on the sale comprised $342 million of cash and $150 million of UEIH 5.2% cumulative redeemable preferred shares. The cash received was applied to reduce short-term borrowings and pay a dividend on common shares of $135 million.

This related party transaction has been accounted for at the carrying amounts of the net assets transferred, resulting in a $38 million charge to the Company's retained earnings. The charge to retained earnings represents the unrecorded deferred income taxes on assets sold of $31 million and adjustments and costs of disposition of $7 million. The unrecorded deferred income taxes arose through the use of the flow through tax accounting methodology.

The following is a summary of the net assets transferred as part of the transaction:

	($millions)
Accounts receivable and other current assets	71
Finance contracts and other assets	107
Rental equipment and other capital assets	410
	588
Deferred income taxes - recorded	(65)
- unrecorded	(31)
Proceeds	492

The reduction in the Company's utility rate base approximates the proceeds received from the sale of assets.

16. RELATED PARTY TRANSACTIONS

A. The Company purchases natural gas and transportation services at prevailing market prices and under normal trade terms from commonly controlled companies. During the year ended December 31, 2000, these purchases totalled $45 million (1999 – $36 million). The Company also provides storage and transportation services to commonly controlled companies under normal trade terms. During the year, this revenue totalled $7 million (1999 – $4 million).

B. The Company provided administrative, management and other services to commonly controlled companies totalling $6 million (1999 – $7 million), which were recovered at cost. Charges from related parties for administrative and other goods and services were $11 million (1999 – $11 million) as approved by the OEB.

C. The Company received dividends from the UEIH cumulative redeemable preferred shares of $8 million (1999 – $8 million).

D. At December 31, 2000, the Company has intercompany receivable balances of $4 million (1999 – $10 million) and intercompany payable balances of $1 million (1999 – $2 million), which are recorded in accounts receivable and accounts payable respectively.

E. In December 2000, UEI and UEIH completed a corporate reorganization. Both UEI and UEIH are companies related to the Company through common control. The corporate reorganization transferred all of the assets and liabilities of UEI to another company controlled by UEIH. The only remaining asset of UEI was a deferred income tax asset associated with losses from prior years, which can be applied to future years' income tax liabilities. Subsequent to the reorganization, the Company purchased all the outstanding shares of UEI from UEIH, in exchange for 100,000 Class C, Series 1 redeemable preference shares of the Company. The transaction has been recorded at $18 million, which is equal to the redemption value of the preference shares and the book value of the deferred income tax asset.

17. CONTINGENCIES

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its financial position.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

GENERAL

The Board of Directors believes that sound corporate governance practices are an essential element to the well being of the Corporation and its shareholder. Through its Corporate Governance Committee, the Board administers a program to develop and sustain suitable processes and structures to guide the direction and management of the business and affairs of the Corporation in the pursuit of enhanced corporate performance and shareholder value.

The Toronto Stock Exchange requires an annual description of the Corporation's system of corporate governance with reference to the 1994 guidelines of The Toronto Stock Exchange Committee on Corporate Governance. The Corporation considers itself **fully** aligned with the TSE guidelines. The following is intended to illustrate the Corporation's compliance with principal matters contained in the TSE guidelines.

BOARD OF DIRECTORS

The Board has the responsibility for supervising the management of the business and the affairs of the Corporation. Management of the Corporation is responsible for the day-to-day operations of the business. The Board has considered and does consider the principal risks to the Corporation and receives reports of the Corporation's assessment and management of those risks. Through management, the Board has put processes in place to allow effective communication with the Corporation's shareholders and the public. The Board also periodically reviews the compensation of directors in light of related risks and responsibilities.

COMPOSITION OF THE BOARD

The Board is composed of ten directors. Of the directors, Jane Peverett, as President and Chief Executive Officer is a full-time officer of the Corporation, and is the only "related" (as defined in the TSE guidelines) director. Three other directors are full-time officers of the Corporation's parent, Westcoast Energy Inc. ("Westcoast") and one other director is a full-time officer of an operating company of Westcoast. Westcoast owns 100% of the common shares of the Corporation and is therefore considered a significant shareholder. The four Westcoast directors are not actively involved in the day-to-day management of the Corporation. The TSE guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary corporation. Of the remaining five directors, two directors are members of the Board of Directors of Westcoast and are not officers or employees of Westcoast or any of its affiliates, thus meeting the TSE definition of an "outside director". The remaining three directors are neither officers nor employees of the Corporation or its subsidiaries and do not have interests in or relationships with the Corporation or its parent which could materially interfere, or could reasonably be perceived to materially interfere, with such directors' ability to act with a view to the best interests of the Corporation. The Board has therefore concluded that a majority of the directors of the Corporation are unrelated, six of whom are also outside and unrelated as those terms are defined by the TSE guidelines.

COMMITTEES OF THE BOARD

The Board has established and adopted terms of reference for each of the Executive, Audit, Human Resources, Corporate Governance and Environment, Health & Safety Committees.

The *Executive Committee* is composed of three directors, all of whom are unrelated directors. This committee is charged with the responsibility of reviewing urgent matters which cannot await the next Board meeting and performing and exercising such functions and such powers as are specifically delegated to the committee by the Board.

The *Audit Committee* is composed of three unrelated directors, two of whom are outside, the third being Graham Wilson who is the Chief Financial Officer for Westcoast, the significant shareholder of the Corporation. This committee is broadly responsible for ensuring that the Corporation's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the financial statements of the Corporation, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The *Human Resources Committee* is composed of four directors, all of whom are unrelated (two of whom are also outside directors). This committee is generally responsible for making recommendations to the Board regarding human resources and compensation policies and guidelines for application to the Corporation and for implementing and overseeing human resources and compensation policies approved by the Board. Reporting to the Human Resources Committee is the Pension Administration Committee.

The *Corporate Governance Committee* is composed of three directors, all of whom are unrelated directors (one of whom is an outside director). This committee's prime responsibility is for developing and monitoring the Corporation's overall approach to corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Corporation's obligations to its shareholders.

The *Environment, Health & Safety Committee* is composed of two directors, both of whom are outside and unrelated. The primary role of the committee is ensuring that the Corporation has designed and implemented an Environmental, Health and Safety Management System that ensures compliance, identifies opportunities, risks, and liabilities, and pro-actively addresses issues.

CHAIRMAN

Arthur H. Willms, is the Chairman of the Board of the Corporation. As such, while being responsible on behalf of the Board for the recruitment of the other directors and the assessment of performance, he reviews with the Board on-going assessment matters, the appointment and monitoring of senior management, and succession issues.

SHAREHOLDER FEEDBACK AND CONCERNS

The Corporation provides annual and quarterly reports to its preference shareholders and responds to enquiries from those shareholders on a timely basis.

DECISIONS REQUIRING BOARD APPROVAL

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself.

EXPECTATIONS OF MANAGEMENT

The Board reviews the Corporation's strategic plan with management at least annually. Members of the management team report to the Board on a regular basis to review the Corporation's financial and operational results and the Corporation's progress in fulfilling its strategic goals and objectives.

FINANCIAL STATISTICS

($millions)	**2000**	1999	1998	1997	1996
OPERATING RESULTS					
Operating revenues	**1,614**	1,470	1,559	1,905	1,838
Operating expenses	**1,269**	1,167	1,194	1,471	1,410
Income before interest and income taxes	**345**	303	365	434	428
Interest expense	**175**	168	179	184	190
Income taxes	**57**	40	77	106	109
Net income	**113**	95	109	144	129
Preference share dividend requirement	**5**	5	1	1	4
Earnings applicable to common shares	**108**	90	108	143	125
ASSETS					
Current assets	**794**	614	579	612	652
Property, plant and equipment	**4,286**	4,133	4,537	4,309	4,096
Less accumulated depreciation	**1,283**	1,186	1,256	1,123	1,030
	3,003	2,947	3,281	3,186	3,066
Investments and other assets	**201**	209	158	169	166
Total	**3,998**	3,770	4,018	3,967	3,884
CAPITALIZATION					
Current liabilities	**852**	789	757	914	749
Long-term debt	**1,694**	1,595	1,642	1,580	1,672
Redeemable preference shares	**5**	5	5	5	73
Deferred income taxes	**301**	319	392	390	346
Shareholders' equity					
Preference shares	**123**	105	105	5	49
Common equity	**1,023**	957	1,117	1,073	995
	1,146	1062	1,222	1,078	1,044
Total	**3,998**	3,770	4,018	3,967	3,884
CASH FLOW DATA					
Operating cash flow	**237**	221	257	287	313
Capital expenditures	**204**	222	264	297	314
Common share dividends declared	**65**	212	64	73	100

OPERATING STATISTICS

	2000	1999	1998	1997	1996
CUSTOMERS					
Residential	**1,014,820**	995,152	969,563	937,319	902,164
Other regular rates	**108,074**	107,784	104,962	102,641	99,190
Contract	**622**	692	671	657	635
Other utilities	**7**	7	7	7	7
Total	**1,123,523**	1,103,635	1,075,203	1,040,624	1,001,996
VOLUME					
Distribution volume (10^6m^3)*					
Residential	**2 811**	2 620	2 397	3 019	3 018
Other regular rates	**2 427**	2 339	2 103	2 226	2 223
Contract and transportation service	**9 369**	9 354	8 505	8 924	8 202
Other utilities	**326**	289	269	307	300
Total distribution volume	**14 933**	14 602	13 274	14 476	13 743
Transportation volume	**20 831**	19 972	18 485	19 161	17 856
Total throughput	**35 764**	34 574	31 759	33 637	31 599
GAS SUPPLY (10^6m^3)					
Source					
Firm supplies	**1 781**	1726	960	2 924	2 413
Direct purchase	**114**	889	2 112	4 422	5 309
Other supplies	**1 626**	1 624	1 771	1 549	1 905
Total	**3 521**	4 239	4 843	8 895	9 627
SYSTEM FACILITIES					
Kilometres of pipelines					
Gathering and storage	**220**	185	178	164	164
Transmission	**6 355**	6 314	6 253	6 203	6 105
Distribution	**28 197**	27 640	27 055	26 593	25 722
Total	**34 772**	34 139	33 486	32 960	31 991
Compressor stations (kilowatts)	**274 846**	274 637	274 637	274 637	274 692
Working storage capacity (10^6m^3)	**4 121**	3 896	3 723	3 723	3 734
Degree days (celsius)**	**4 197**	3 919	3 536	4 350	4 488

* 10^6m^3 (million cubic metres)

** Normal degree days are 4 272 for a 365 day year and 4 294 for a 366 day year

CORPORATE DIRECTORY

DIRECTORS

ARTHUR H. WILLMS[2,3]
(Chairman)
Corporate Director

MICHAEL G. BROADFOOT[3]
President and
Chief Executive Officer
Engage Energy Canada, Inc.

MURRAY W. COOPER[1,5]
Corporate Director

MARNIE PAIKIN[3,4]
Corporate Director

ROBERT T. REID[2,3,4]
Executive Vice-President and
Chief Operating Officer
Westcoast Energy Inc.
(as of April 25, 2001)

ADRIAN B. RYANS[1,5]
Professor,
Business Administration
University of Western Ontario

DAVID G. UNRUH[2,4]
Senior Vice-President,
Law and Corporate Secretary
Westcoast Energy Inc.

GRAHAM M. WILSON[1]
Executive Vice-President,
Chief Financial Officer,
Chief Executive Officer-Services
Westcoast Energy Inc.
(as of April 25, 2001)

JANE L. PEVERETT
President and
Chief Executive Officer
Union Gas Limited
(as of April 30, 2001)

J. DOUGLAS LAWSON
Chairman and Senior
Administrative Partner
McTague Law Firm LLP
(as of April 30, 2001)

OFFICERS

ARTHUR H. WILLMS
Chairman

ROBERT T. REID
President and Chief Executive
Officer (to April 25, 2001)

JANE L. PEVERETT
President and Chief Executive
Officer (as of April 25, 2001)

JOHN W. WELLARD
Senior Vice-President,
Sales, Marketing and
Business Development
(as of April 25, 2001)

M. RICHARD BIRMINGHAM
Vice-President, Finance and
Business Services

GRACE M. PALOMBO
Vice-President,
Human Resources,
General Counsel and
Corporate Secretary

MEL YDREOS
Vice-President,
Asset Operations

STEPHEN W. BAKER
Vice-President,
Asset Management
(as of April 25, 2001)

JOANNE M. MCLEOD
Treasurer

LAWRENCE W. FEDCHUN
Assistant Secretary

CHRISTINE L. JACKSON
Assistant Secretary
(as of April 25, 2001)

CORPORATE INFORMATION

Transfer Agent and Registrar
CIBC Mellon Trust Company

Union Gas Limited preference shares are listed on the Toronto Stock Exchange.
Class A - 5 1/2% (UNG.PR.C),
Class A – 6% (UNG.PR.D)

REGISTERED OFFICE

50 Keil Drive North,
Chatham, Ontario
N7M 5M1

Committees of the Board

1 Audit
2 Executive
3 Human Resources
4 Corporate Governance
5 Environment, Health & Safety

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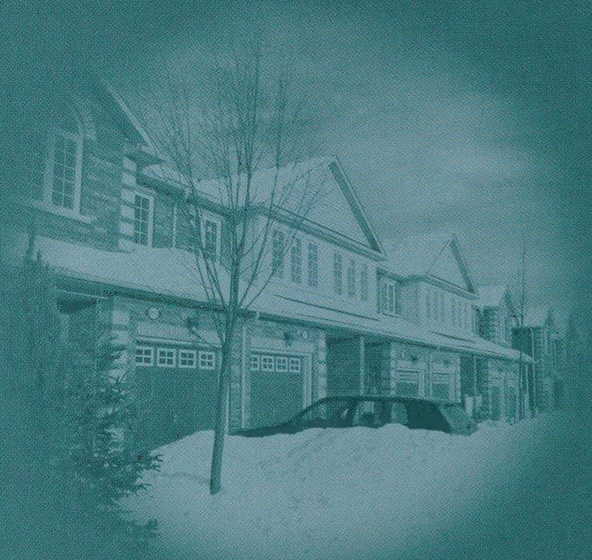

UNION GAS LIMITED

50 KEIL DRIVE NORTH
CHATHAM, ONTARIO N7M 5M1

www.uniongas.com